

CONSUMER COUNCIL FOR



# **Sutton and East Surrey Water/Ofwat Interim Price Determination**

**Initial Submission to the  
Competition Commission**

# Sutton & East Surrey Water/Ofwat Interim Price Determination

## Introduction

1. The Consumer Council for Water (CCWater) is the independent organisation that represents the interests of water and sewerage consumers throughout England and Wales. We operate through four committees in England and a committee for Wales. This is the response of the London and South East Committee that represents the consumers served by Sutton and East Surrey Water plc.

## Application

2. Sutton and East Surrey Water has identified two sets of circumstances which it believes will have a substantial adverse effect on the appointed business which could not have been avoided by prudent management and have associated costs/losses that are greater than 20% of turnover. In September 2008 it therefore applied to Ofwat, under Condition B of its licence, to have its price limit for 2009-10 reviewed. The company proposed that bills should increase by 10.2% before inflation rather than be reduced by 1.1% before inflation, as determined at the last price review in 2004.
3. The two circumstances referred to are:
  - Increases in power costs; and
  - Loss of income from metered customers using less water than forecast at the last price review due to the drought in 2006 when restrictions were imposed and then the two comparatively wet summers that followed in 2007 and 2008.

## Ofwat's Determination

4. On 5 November 2008 Ofwat published its draft determination on the application. Ofwat provisionally decided not to allow Sutton and East Surrey Water to increase its prices, concluding that having scrutinised the application it was confident that the company did have the necessary finance in place to provide the quality of service customers expect and to finance its functions until prices are reset from 2010. It was also stated that a significant proportion of the additional power costs could have been avoided through more effective management of its energy purchasing.
5. Following a period of consultation, during which CCWater submitted its views, Ofwat announced its final determination on 16 December 2008 which maintained its earlier position. The company disputed this final determination and therefore, under Condition B of their Licence (the substantial effect clause), required Ofwat to refer the matter to the Competition Commission for determination which it did on the 5 March 2009.

## CCWater's Position

6. We welcomed Ofwat's decision not to allow the company to increase its charges ahead of the next price review, when all water companies will have their price limits reset for the period 2010 - 2015.

### Power costs

7. The circumstances identified by Sutton and East Surrey Water have impacted on most companies to varying degrees. In submitting their Final Business Plan to Ofwat on 7 April 2009 many companies have identified increased energy costs as one of the main causes of projected price rises from 2010. As such, we believe that the price setting process for 2010-15 is the right time to review all water companies' energy purchasing policies, actions and assumptions. In this way Ofwat can make industry wide comparisons, and from this considered judgments about the appropriateness of individual companies energy purchasing activities and future energy cost assumptions can be made. We therefore do not consider it appropriate to separate Sutton and East Surrey Water from this wider review.

### Loss of income from metered customers

8. Sutton and East Surrey Water claim that demand for water from summer 2006 onwards was significantly below forecast levels. As a consequence the company's revenue stream was lower than had been projected at the 2004 price determination. This scenario also applies to some other companies, particularly those in the water constrained south and east of England. As with energy costs we consider that Ofwat's current price review is the right setting for assessing the impact that reduced demand for water has had on the company's income.

### Summary

9. Consumers welcomed Ofwat's decision not to allow the company to raise prices significantly from April 2009, but remain concerned about the potential for single year double-digit real terms price increases in future years. Although the area served by Sutton and East Surrey Water is more affluent than most there are pockets of deprivation within the company's supply area. In the prevailing difficult economic times a significant price increase will add to the strain on many household budgets, likely lead to an increase in customers defaulting on payments, and increase the company's debt recovery costs, which all customers meet through their water bills.
10. We question exactly what Sutton and East Surrey Water hope to gain from this application. Even if the Competition Commission determines in its favour, in full or in part, the company will be left facing two options.
  - First, to accept that they will not be able to recoup lost revenue until the 2010-11 financial year. If so, then why not allow Ofwat to set price limits in November 2009 and if considered inappropriate request that Ofwat make a reference to the Competition Commission?
  - Secondly, to issue supplementary bills to all its customers later in 2009. If so, then this will likely meet with adverse customer reaction.

11. Against this backdrop we consider that allowing Ofwat to review the company's claims for increased power costs and lost income in the context of its wider assessment of all companies' investment and price proposals for 2010-15 is the most appropriate course of action. Ofwat has a tried and tested process for logging up additional costs, and setting them within a longer term framework of investment needs and revenue requirements. We consider that the price review should be allowed to run its course.

## **Enquiries**

12. If you have any questions relating to this submission, please contact:

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